

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(\$ thousands)	Note	June 30 2018	December 31 2017	June 30 2017
Assets				
Current assets				
Cash		\$ 279,724	\$ 160,507	\$ 120,944
Accounts receivable		510,251	528,748	293,517
Inventories		864,618	780,024	523,515
Income taxes receivable		-	-	2,096
Derivative financial instruments	5	15,456	-	-
Other current assets		13,666	8,386	5,289
Total current assets		1,683,715	1,477,665	945,361
Property, plant and equipment	2	406,914	412,535	186,462
Rental equipment	2	522,132	469,342	310,443
Other assets		16,560	17,206	15,234
Deferred tax assets		-	411	7,414
Goodwill and intangible assets		482,754	485,750	27,486
Total assets		\$ 3,112,075	\$ 2,862,909	\$ 1,492,400
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 822,768	\$ 537,321	\$ 277,736
Provisions		23,115	22,436	14,174
Deferred revenues and contract liabilities		174,545	137,129	78,833
Current portion of long-term debt	3	2,010	1,941	1,875
Derivative financial instruments	5	-	5,260	5,735
Income taxes payable		4,827	204	-
Total current liabilities		1,027,265	704,291	378,353
Deferred revenues		18,035	18,750	18,604
Long-term debt	3	743,759	893,806	149,987
Post-employment obligations		102,653	121,335	21,641
Deferred tax liabilities		6,419	-	-
Shareholders' equity				
Share capital		452,847	444,427	317,121
Contributed surplus		11,625	10,290	9,528
Retained earnings		745,539	669,813	596,915
Accumulated other comprehensive income		3,933	197	251
Shareholders' equity		1,213,944	1,124,727	923,815
Total liabilities and shareholders' equity		\$ 3,112,075	\$ 2,862,909	\$ 1,492,400

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
(Unaudited)

(\$ thousands, except share amounts)	Note	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
Revenues	11	\$ 961,267	\$ 530,930	\$ 1,638,095	\$ 943,238
Cost of goods sold		736,401	408,787	1,246,455	720,690
Gross profit		224,866	122,143	391,640	222,548
Selling and administrative expenses		125,886	65,621	243,445	128,132
Operating income		98,980	56,522	148,195	94,416
Interest expense	6	7,719	1,839	16,614	3,671
Interest and investment income	6	(2,051)	(996)	(4,230)	(2,108)
Income before income taxes		93,312	55,679	135,811	92,853
Income taxes		25,702	15,224	37,422	25,374
Net earnings		\$ 67,610	\$ 40,455	\$ 98,389	\$ 67,479
Earnings per share					
Basic	7	\$ 0.83	\$ 0.52	\$ 1.21	\$ 0.86
Diluted	7	\$ 0.83	\$ 0.51	\$ 1.20	\$ 0.85
Weighted average number of shares outstanding					
Basic	7	81,131,332	78,473,780	81,054,292	78,453,047
Diluted	7	81,949,920	79,328,906	81,843,309	79,272,793

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net earnings	\$ 67,610	\$ 40,455	\$ 98,389	\$ 67,479
Other comprehensive income (loss), net of income taxes:				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation adjustments	176	(267)	460	(350)
Unrealized gains (losses) on derivatives designated as cash flow hedges	1,849	(2,429)	5,926	(3,390)
Income tax (expense) recovery	(485)	631	(1,547)	881
Unrealized gains (losses) on cash flow hedges, net of income taxes	1,364	(1,798)	4,379	(2,509)
Realized (gains) losses on derivatives designated as cash flow hedges	(1,613)	(529)	(1,492)	236
Income tax expense (recovery)	419	137	389	(62)
Realized (gains) losses on cash flow hedges, net of income taxes	(1,194)	(392)	(1,103)	174
<i>Items that will not be reclassified subsequently to net earnings:</i>				
Actuarial gains and other	12,871	-	19,526	-
Income tax expense	(3,411)	-	(5,143)	-
Actuarial gains and other, net of income taxes	9,460	-	14,383	-
Other comprehensive income (loss)	9,806	(2,457)	18,119	(2,685)
Total comprehensive income	\$ 77,416	\$ 37,998	\$ 116,508	\$ 64,794

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ thousands)	Note	Three months ended		Six months ended	
		June 30		June 30	
		2018	2017	2018	2017
Operating activities					
Net earnings		\$ 67,610	\$ 40,455	\$ 98,389	\$ 67,479
Items not requiring cash:					
Depreciation and amortization		35,662	19,566	69,341	38,517
Stock-based compensation		1,374	861	2,749	1,722
Post-employment obligations		(578)	(931)	844	(929)
Deferred income taxes		501	(691)	529	(982)
Interest accretion on repayment of term bank debt	3	-	-	511	-
Gain on sale of rental equipment and property, plant and equipment		(4,154)	(4,173)	(7,743)	(11,351)
		100,415	55,087	164,620	94,456
Net change in non-cash working capital and other	10	91,858	(24,803)	194,905	(63,920)
Additions to rental equipment	2	(70,497)	(47,527)	(105,325)	(75,135)
Proceeds on disposal of rental equipment		7,039	8,786	13,983	20,154
Cash provided by (used in) operating activities		128,815	(8,457)	268,183	(24,445)
Investing activities					
Additions to property, plant and equipment	2	(8,332)	(11,559)	(15,446)	(15,794)
Proceeds on disposal of property, plant and equipment		1,497	187	1,653	909
(Increase) decrease in other assets		-	(52)	42,577	(106)
Cash (used in) provided by investing activities		(6,835)	(11,424)	28,784	(14,991)
Financing activities					
Repayment of term bank debt		-	-	(150,000)	-
Repayment of senior debentures		-	-	(953)	(890)
Dividends	4	(18,636)	(14,907)	(34,015)	(29,018)
Cash received on exercise of stock options		5,053	247	7,006	1,683
Cash used in financing activities		(13,583)	(14,660)	(177,962)	(28,225)
Effect of currency translation on cash balances		104	(99)	212	(130)
Increase (decrease) in cash		108,501	(34,640)	119,217	(67,791)
Cash, at beginning of period		171,223	155,584	160,507	188,735
Cash, at end of period		\$ 279,724	\$ 120,944	\$ 279,724	\$ 120,944

Supplemental cash flow information (note 10)

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

(\$ thousands)	Share Capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income		Total	Total
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges		
At January 1, 2018	80,949,819	\$ 444,427	\$ 10,290	\$ 669,813	\$ 1,911	\$ (1,714)	\$ 197	\$ 1,124,727
Net earnings	-	-	-	98,389	-	-	-	98,389
Other comprehensive income	-	-	-	14,383	460	3,276	3,736	18,119
Total comprehensive income	-	-	-	112,772	460	3,276	3,736	116,508
Exercise of stock options	330,015	8,420	-	-	-	-	-	8,420
Stock-based compensation expense	-	-	2,749	-	-	-	-	2,749
Stock options exercised	-	-	(1,414)	-	-	-	-	(1,414)
Effect of stock compensation plans	330,015	8,420	1,335	-	-	-	-	9,755
Dividends	-	-	-	(37,046)	-	-	-	(37,046)
At June 30, 2018	81,279,834	\$ 452,847	\$ 11,625	\$ 745,539	\$ 2,371	\$ 1,562	\$ 3,933	\$ 1,213,944

(\$ thousands)	Share Capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income		Total	Total
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges		
At January 1, 2017	78,398,456	\$ 315,078	\$ 8,166	\$ 559,252	\$ 2,627	\$ 309	\$ 2,936	\$ 885,432
Net earnings	-	-	-	67,479	-	-	-	67,479
Other comprehensive loss	-	-	-	-	(350)	(2,335)	(2,685)	(2,685)
Total comprehensive income	-	-	-	67,479	(350)	(2,335)	(2,685)	64,794
Exercise of stock options	82,005	2,043	-	-	-	-	-	2,043
Stock-based compensation expense	-	-	1,722	-	-	-	-	1,722
Stock options exercised	-	-	(360)	-	-	-	-	(360)
Effect of stock compensation plans	82,005	2,043	1,362	-	-	-	-	3,405
Dividends	-	-	-	(29,816)	-	-	-	(29,816)
At June 30, 2017	78,480,461	\$ 317,121	\$ 9,528	\$ 596,915	\$ 2,277	\$ (2,026)	\$ 251	\$ 923,815

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for three and six months ended June 30, 2018
(Unaudited)

(\$ thousands, except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

Toromont Industries Ltd. (the “Company” or “Toromont”) is a limited company incorporated and domiciled in Canada whose shares are publicly traded on the Toronto Stock Exchange under the symbol TIH. The registered office is located at 3131 Highway 7 West, Concord, Ontario, Canada.

Toromont operates through two reportable segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations and an expanding agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 6,200 people in almost 150 locations.

Basis of Preparation

These interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard (“IAS”) 34 - *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2017.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2017.

The interim condensed consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousands, except where otherwise indicated.

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee of the Board of the Directors on July 24, 2018.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2017, except as noted below.

Amendments to Standards Adopted in 2018

Certain amendments to standards that were adopted on January 1, 2018 are noted below.

a) Revenue Recognition

IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

As of January 1, 2018, the Company has adopted IFRS 15. The transition to the new standard had no material impact on the measurement or recognition of revenue of prior periods, however, required additional disclosures have been added. The Company elected to apply the standard on a full retrospective basis, whereby the cumulative effect of adoption is applied to the earliest comparative period presented. For the Company, the earliest period presented is the comparative period beginning January 1, 2017. The Company applied certain practical expedients, as permitted by the standard in determining the impact on transition.

The Company’s accounting policy for revenue recognition is described below and was determined to be in compliance with the requirements of IFRS 15.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company principally generates revenue from the sale of equipment, rentals, product support and power generation.

Products and Services	Nature, timing and satisfaction of performance obligations and significant payment terms
Sale of Equipment	Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment and acceptance by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.
Sale of Equipment with a Guaranteed Residual Value or Repurchase Commitment	The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at a predetermined residual value is assessed to determine whether the customer has a significant economic incentive to exercise the put option. If there is no significant economic incentive, the sale is recorded as a sale with a right of return. If the customer is determined to have a significant economic incentive, the sale is recorded as an operating lease in accordance with IAS 17 – <i>Leases</i> .
Sale of Power Systems and Refrigeration Packages	The sale of power systems and refrigeration packages involve the design, manufacture, installation and commissioning of longer-term projects under the customer’s control and can span from three months to one-year. Revenue is recognized over time, using an input method of costs incurred to date as a percentage of total costs to measure progress towards complete satisfaction of the contract. Payment terms are usually based on set milestones outlined in the contract. Periodically, (i) amounts are received in advance of the associated contract work being performed - these amounts are

	recorded as contract liabilities; and (ii) revenue is recognized without issuing an invoice – this entitlement to consideration is recognized as unbilled receivables. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
Equipment Rentals	Revenue is accounted for in accordance with IAS 17 – <i>Leases</i> . Revenue is recognized on a straight-line basis over the term of the agreement. Payment terms are generally 30 days from invoicing.
Product Support	Revenue from product support services includes the sale of parts and performance of service work on equipment. For the sale of parts, revenue is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the part(s). For the servicing of equipment, revenue is recognized at a point in time, when the service is complete and accepted by the customer.
Long-term Maintenance Contracts	Long-term maintenance contracts typically range from one to five years and are customer-specific. These contracts are sold either separately or bundled together with the sale of equipment to a customer. These arrangements cover a range of services from regular maintenance to major repairs. Under IFRS 15, if the sale of equipment and a long term maintenance contract are considered to be bundled, the Company has concluded that there are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable. If the sales are bundled, the Company allocates a portion of the transaction price based on the relative stand-alone selling price to each performance obligation. Revenue from maintenance services will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service.
Extended Warranty	The Company generally provides warranties for general repairs of defects that existed at the time of sale. As such, most warranties are assurance-type warranties under IFRS 15, which the Company accounts for under IAS 37 - <i>Provisions, Contingent Liabilities and Contingent Assets</i> . Extended warranty may be purchased by a customer at time of purchase of a machine to provide additional warranty coverage beyond the initial one year standard warranty covered by the supplier. Extended warranty generally covers specified components for a term from 3 to 5 years. Under IFRS 15, such warranties are accounted for as service-type warranties and, therefore, are accounted for as separate performance obligations to which the Company allocates a portion of the transaction price based on the relative stand-alone selling price. Revenue is subsequently recognised over time based on the time elapsed.
Power Generation	The Company owns and/or operates power generation plants that sell electricity and thermal power. Revenue is recognized monthly based on set rates as power is consumed. Payment is due within 30 days of invoicing.

The disaggregation of the Company's revenues for each reportable segment is disclosed in Note 11.

b) Share-based Payment

Amendments to IFRS 2 – *Share-based payment*, clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled.

The amendments were effective for annual periods beginning on or after January 1, 2018. Adoption of these amendments had no impact on the Company's financial position or net earnings.

c) Financial Instruments

IFRS 9 - *Financial Instruments* ("IFRS 9") replaces IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") for annual periods beginning on or after January 1, 2018. IFRS 9 includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period, however, the Company assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

The adoption of IFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

Trade receivables

Trade receivables are carried at amounts due, net of impairment for estimated expected credit loss ("ECL").

Financial assets and liabilities

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value.

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at fair value through profit or loss ("FVTPL"). Financial liabilities are classified as FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as FVTPL.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in the consolidated statements of income. The remaining amount of change in the fair value of liability is recognized in the consolidated income statements. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to the consolidated income statements; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as FVTPL, are subsequently measured at amortized cost using the effective interest method.

Classification and subsequent measurement

Appropriate classification of financial assets and financial liabilities is determined at the time of initial recognition or when reclassified on the consolidated statements of financial position. From January 1, 2018, the Company has applied IFRS 9 and classifies its financial assets and liabilities in the following measurement categories:

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income (“FVTOCI”); or
- (iii) FVTPL.

Impairment

IFRS 9 requires a forward looking ECL model as opposed to an incurred credit loss model under IAS 39. The amount of ECL is updated at each reporting period to reflect changes in credit risk of the respective financial instrument.

In applying the ECL model, one of the following three approaches can be used:

- (i) General approach, which would be applied to most loans and debt securities;
- (ii) Simplified approach, which will be applied to most trade receivables; or
- (iii) Purchased or originated credit-impaired approach.

As the Company’s financial assets are substantially made up of trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument.

The Company considers the following as constituting an event of a default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- (i) when there is a breach of financial covenants by the customer; or
- (ii) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (i) significant financial difficulty of the customer;
- (ii) a breach of contract, such as a default discussed above; or
- (iii) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Derivatives and Hedges

Derivative financial arrangements are used to hedge exposure to fluctuations in exchange rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At inception, the Company designates and documents the hedge relationship, including identification of the transaction and the risk management objectives and strategy for undertaking the hedge. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The Company has designated certain derivatives as cash flow hedges. These are hedges of firm commitments and highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statements. Additionally:

- If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gains or losses that were recognized in other comprehensive income are included in the initial cost or other carrying amount of the asset;
- For cash flow hedges other than those identified above, amounts accumulated in other comprehensive income are recycled to the consolidated income statements in the period when the hedged item will affect earnings (for instance, when the forecast sale that is hedged takes place);
- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in the consolidated income statements; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the consolidated income statements.

d) Foreign Currency Transactions and Advance Consideration

IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*, clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency.

The new interpretation was effective for annual periods beginning on or after January 1, 2018. Management has determined that the new standard does not have a material impact on the Company's financial position.

Standards Issued But Not Effective

A number of new standards and amendments to standards have been issued but are not effective for the financial year ended December 31, 2018, and accordingly, have not been applied in preparing these interim condensed consolidated financial statements.

a) Leases

IFRS 16 – *Leases*, introduces new requirements for the classification and measurement of lessees. For lessors, there is little change to the existing accounting in IAS 17 - *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements. Management expects that IFRS 16 will result in higher non-current assets and non-current liabilities recorded on the consolidated statements of financial position.

b) Uncertainty over Income Tax Treatments

IFRIC 23 - *Uncertainty over Income Tax Treatments*, provides guidance when there is uncertainty over income tax treatments including (but not limited to) whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances.

The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

2. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

Activity within property, plant and equipment and rental equipment included:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Additions				
Rental equipment	\$ 70,497	\$ 47,527	\$ 105,325	\$ 75,135
Property, plant and equipment	8,332	11,559	15,446	15,794
Total Additions	\$ 78,829	\$ 59,086	\$ 120,771	\$ 90,929
Disposals - NBV				
Rental equipment	\$ 3,341	\$ 4,745	\$ 6,803	\$ 9,510
Property, plant and equipment	1,041	55	1,090	202
Total Disposals - NBV	\$ 4,382	\$ 4,800	\$ 7,893	\$ 9,712
Depreciation				
Cost of goods sold	\$ 28,182	\$ 17,699	\$ 54,735	\$ 34,847
Selling and administrative expenses	5,729	1,747	11,145	3,431
Total Depreciation	\$ 33,911	\$ 19,446	\$ 65,880	\$ 38,278

Property, plant and equipment at June 30, 2018 included \$4.3 million related to a property that is available for sale.

3. LONG-TERM DEBT

	June 30 2018	December 31 2017	June 30 2017
7.06%, \$15.0 million, due March 29, 2019 ⁽¹⁾	\$ 2,010	\$ 2,963	\$ 3,884
3.71%, \$150.0 million, due September 30, 2025 ⁽²⁾	150,000	150,000	150,000
3.84%, \$500.0 million, due October 27, 2027 ⁽²⁾	500,000	500,000	-
Senior debentures	652,010	652,963	153,884
\$250.0 million term credit facility due on October 27, 2022 ⁽³⁾	100,000	250,000	-
	752,010	902,963	153,884
Debt issuance costs, net of amortization	(6,240)	(7,216)	(2,022)
Total long-term debt	745,769	895,747	151,862
Less: current portion of long-term debt	(2,010)	(1,941)	(1,875)
Non-current portion of long-term debt	\$ 743,759	\$ 893,806	\$ 149,987

⁽¹⁾ Blended principal and interest payments payable semi-annually through to maturity.

⁽²⁾ Interest payable semi-annually, principal due on maturity.

⁽³⁾ Interest payable monthly, principal due on maturity.

All debt is unsecured.

The Company maintains a \$500.0 million committed revolving credit facility which matures in October 2022. Debt under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

No amounts were drawn on the revolving credit facility at June 30, 2018, December 31, 2017 or June 30, 2017. Letters of credit utilized \$27.4 million of the facility at June 30, 2018 (December 31, 2017 - \$26.7 million and June 30, 2017 - \$22.9 million).

In March 2018, the Company repaid \$150.0 million on its committed term credit facility. Unamortized deferred financing costs of \$0.5 million associated with this portion of the term credit facility were expensed in the first quarter and recorded within interest expense on the interim condensed consolidated income statement.

4. SHARE CAPITAL

Normal Course Issuer Bid ("NCIB")

No shares were purchased under the NCIB program during the three and six months ended June 30, 2018 and 2017.

Dividends

The Company paid dividends of \$18.6 million or \$0.23 per share during the three months ended June 30, 2018 (2017 - \$14.9 million or \$0.19 per share) and \$34.0 million or \$0.42 per share during the six months ended June 30, 2018 (2017 - \$29.0 million or \$0.37 per share).

The quarterly dividend was increased on February 22, 2018, to \$0.23 per share effective with the dividend paid on April 2, 2018.

5. FINANCIAL INSTRUMENTS

Financial Assets and Liabilities – Classification and Measurement

The following table highlights the carrying amounts and classifications of certain financial assets and liabilities:

	June 30 2018	December 31 2017	June 30 2017
Other financial liabilities:			
Current portion of long-term debt	\$ 2,010	\$ 1,941	\$ 1,875
Long-term debt	743,759	893,806	149,987
Derivative instruments - cash flow hedges:			
Foreign exchange forward contracts	\$ 15,456	\$ (5,260)	\$ (5,735)

Fair Value of Financial Instruments

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on the comparable foreign exchange rate at period end under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability, most significantly foreign exchange spot and forward rates.

The fair value and carrying value of long-term debt is as follows:

	June 30 2018	December 31 2017	June 30 2017
Long-term debt			
Fair value	\$ 760,325	\$ 917,583	\$ 155,975
Carrying value	\$ 752,010	\$ 902,963	\$ 153,884

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of asset or liability.

During the six month period ended June 30, 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. As at June 30, 2018, the Company was committed to USD purchase contracts with a notional amount of \$537.7 million at an average exchange rate of \$1.2798, maturing between July 2018 and November 2019. As at June 30, 2018, the Company was also committed to USD sell contracts with a notional amount of \$46.7 million at an average exchange rate of \$1.2721, maturing between July 2018 and June 2019.

Management estimates that a gain of \$15.5 million (December 31, 2017 – loss of \$5.3 million; June 30, 2017 – loss of \$5.7 million) would be realized if the contracts were terminated on June 30, 2018. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an

unrealized gain of \$2.1 million (December 31, 2017 – unrealized loss of \$2.3 million; June 30, 2017 – unrealized loss of \$2.7 million) has been included in other comprehensive income. These gains are not expected to affect net income as the gains will be reclassified to net income within the next seventeen months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable. Certain of those forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A gain of \$13.4 million (December 31, 2017 – loss of \$3.0 million; June 30, 2017 – loss of \$3.0 million) on forward contracts not designated as hedges is included in net income which offsets losses recorded on the foreign-denominated items, namely accounts payable.

6. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Term loan facility	\$ 1,273	\$ 283	\$ 3,194	\$ 536
Senior debentures	6,446	1,556	12,909	3,135
Interest accretion on repayment of term bank debt	-	-	511	-
	\$ 7,719	\$ 1,839	\$ 16,614	\$ 3,671

The components of interest and investment income were as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Rental conversions	\$ 657	\$ 442	\$ 1,663	\$ 898
Other	1,394	554	2,567	1,210
	\$ 2,051	\$ 996	\$ 4,230	\$ 2,108

7. EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net earnings available to common shareholders	\$ 67,610	\$ 40,455	\$ 98,389	\$ 67,479
Weighted average common shares outstanding	81,131,332	78,473,780	81,054,292	78,453,047
Dilutive effect of stock option conversion	818,588	855,126	789,017	819,746
Diluted weighted average common shares outstanding	81,949,920	79,328,906	81,843,309	79,272,793
Earnings per share:				
Basic	\$ 0.83	\$ 0.52	\$ 1.21	\$ 0.86
Diluted	\$ 0.83	\$ 0.51	\$ 1.20	\$ 0.85

For the three and six months ended June 30, 2018 and 2017, no share options were considered anti-dilutive (exercise price in excess of market price).

8. STOCK BASED COMPENSATION

A reconciliation of the outstanding options was as follows:

	Six months ended June 30, 2018		Six months ended June 30, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,628,036	\$ 34.85	2,430,871	\$ 29.25
Exercised ⁽¹⁾	(330,015)	21.23	(82,005)	20.53
Forfeited	(4,000)	46.84	(15,500)	31.63
Options outstanding, June 30	2,294,021	\$ 36.78	2,333,366	\$ 29.54
Options exercisable, June 30	793,221	\$ 28.19	849,051	\$ 23.37

⁽¹⁾ The weighted average share price at date of exercise for the six months ended June 30, 2018 was \$57.76 (2017 - \$45.73).

The following table summarizes stock options outstanding and exercisable as at June 30, 2018.

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Weighted Average Exercise Price
\$17.10 - \$23.40	415,841	3.6	\$ 22.30	328,951	\$ 22.01	\$ 22.01
\$23.41 - \$26.79	405,300	6.1	\$ 26.52	213,460	\$ 26.52	\$ 26.52
\$36.65	467,590	7.1	\$ 36.65	164,470	\$ 36.65	\$ 36.65
\$39.79	492,740	8.1	\$ 39.79	86,340	\$ 39.79	\$ 39.79
\$53.88	512,550	9.2	\$ 53.88	-	\$ -	\$ -
	2,294,021	6.9	\$ 36.78	793,221	\$ 28.19	\$ 28.19

Deferred Share Unit Plan

A reconciliation of the DSU plan was as follows:

	Six months ended June 30, 2018		Six months ended June 30, 2017	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	426,279	\$ 23,417	407,731	\$ 17,265
Units taken or taken in lieu and dividends	17,928	999	22,399	999
Redemptions	(83,030)	(4,799)	(17,389)	(778)
Fair market value adjustment	-	798	-	2,110
Outstanding, June 30	361,177	\$ 20,415	412,741	\$ 19,596

The liability for deferred share units is recorded in accounts payable and accrued liabilities.

9. EMPLOYEE FUTURE BENEFITS

Employee future benefits expense included the following components:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Defined benefit plans	\$ 4,409	\$ 487	\$ 8,829	\$ 982
Defined contribution plans	3,158	2,850	6,516	5,892
401(k) matched savings plans	75	69	154	140
	\$ 7,642	\$ 3,406	\$ 15,499	\$ 7,014

10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net change in non-cash working capital and other				
Accounts receivable	\$ (72,338)	\$ (33,928)	\$ (24,181)	\$ (32,826)
Inventories	752	(37,940)	(84,594)	(87,758)
Accounts payable and accrued liabilities	145,095	25,400	280,755	31,082
Provisions	278	(279)	679	(1,920)
Deferred revenues	12,295	15,348	36,701	26,967
Income taxes	9,992	1,436	4,623	(3,358)
Other	(4,216)	5,160	(19,078)	3,893
	\$ 91,858	\$ (24,803)	\$ 194,905	\$ (63,920)
Cash paid during the period for:				
Interest	\$ 13,464	\$ 185	\$ 15,296	\$ 3,320
Income taxes	\$ 14,910	\$ 14,501	\$ 31,943	\$ 29,733
Cash received during the period for:				
Interest	\$ 1,866	\$ 890	\$ 3,779	\$ 1,852

11. SEGMENTED INFORMATION

The Company has two reportable segments: the Equipment Group and CIMCO as described above in note 1, each supported by the corporate office. These segments are strategic business units that offer different products and services, and each is managed separately. The corporate office provides finance, treasury, legal, human resources and other administrative support to the segments and does not meet the definition of a reportable operating segment as defined in IFRS 8 – *Operating Segments*, as it does not earn revenue.

The accounting policies of each of the reportable segments are the same as the significant accounting policies described in the most recent annual audited consolidated financial statements.

Segment performance is assessed based on operating income, which is measured differently than income from operations in the consolidated financial statements. Corporate overheads are allocated to the segments based on revenue. Income taxes, interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.

The aggregation of the operating segments is based on the economic characteristics of the business units. These business units are considered to have similar economic characteristics including nature of products and services, class of customers and markets served and similar distribution models.

No reportable segment is reliant on any single external customer.

The following tables set forth information by segment for the three and six month periods ended June 30, 2018 and 2017:

Three months ended June 30	Equipment Group		CIMCO		Consolidated	
	2018	2017	2018	2017	2018	2017
Equipment/package sales	\$ 446,546	\$ 234,372	\$ 53,826	\$ 39,984	\$ 500,372	\$ 274,356
Rentals	91,697	55,694	-	-	91,697	55,694
Product support	333,206	165,078	33,321	32,788	366,527	197,866
Power generation	2,671	3,014	-	-	2,671	3,014
Total revenues	\$ 874,120	\$ 458,158	\$ 87,147	\$ 72,772	\$ 961,267	\$ 530,930
Operating income	\$ 93,927	\$ 49,984	\$ 5,053	\$ 6,538	\$ 98,980	\$ 56,522
Interest expense					7,719	1,839
Interest and investment income					(2,051)	(996)
Income taxes					25,702	15,224
Net earnings					\$ 67,610	\$ 40,455

Six months ended June 30	Equipment Group		CIMCO		Consolidated	
	2018	2017	2018	2017	2018	2017
Equipment/package sales	\$ 705,350	\$ 394,094	\$ 89,445	\$ 63,299	\$ 794,795	\$ 457,393
Rentals	161,071	101,128	-	-	161,071	101,128
Product support	615,403	316,555	61,559	62,018	676,962	378,573
Power generation	5,267	6,144	-	-	5,267	6,144
Total revenues	\$ 1,487,091	\$ 817,921	\$ 151,004	\$ 125,317	\$ 1,638,095	\$ 943,238
Operating income	\$ 139,722	\$ 85,060	\$ 8,473	\$ 9,356	\$ 148,195	\$ 94,416
Interest expense					16,614	3,671
Interest and investment income					(4,230)	(2,108)
Income taxes					37,422	25,374
Net earnings					\$ 98,389	\$ 67,479

Operating income from rental operations was \$7.5 million for the three months ended June 30, 2018 (2017 - \$4.2 million) and \$6.6 million for the six months ended June 30, 2018 (2017 - \$3.0 million).

12. BUSINESS ACQUISITION IN 2017

On October 27, 2017, the Company acquired the businesses and net operating assets of the Hewitt Group of Companies and became the approved Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Quebec and most of Ontario and the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States from Maine to Virginia. Additional distribution rights were also acquired in this transaction. The acquisition expands the Company's Eastern operations into a contiguous territory covering all of Eastern and Central Canada extending into the far North and provides a platform for long-term growth opportunities and diversification into new markets.

The Company acquired the businesses and net operating assets of Hewitt in exchange for consideration of \$902.9 million cash (net of a final closing working capital adjustment) plus the issuance of 2.25 million Toromont common shares (\$121.2 million) for a total consideration of \$1.02 billion. Toromont funded the cash portion of the acquisition through cash on hand, the issuance of long-term senior debentures and drawings on an unsecured term credit facility.

The acquisition has been accounted for using the purchase method of accounting.

Final valuations of certain items are not yet complete due to the inherent complexity associated with valuations of this nature and the timing of the acquisition. Therefore, the purchase price allocation remains preliminary and subject to further adjustments on completion of the valuation process. The updated preliminary purchase price allocation as at June 30, 2018 is as follows:

Accounts receivable	\$	159,539
Inventories		291,035
Property, plant and equipment		216,112
Rental equipment		169,993
Deferred tax asset		2,617
Intangible assets with an indefinite life:		
Distribution network		345,989
Intangible assets with a finite life:		
ERP system		10,000
Customer relationships		14,731
Other		4,243
Accounts payable and accrued liabilities		(127,124)
Provisions		(6,045)
Deferred revenues		(51,503)
Post-employment benefit obligations		(91,555)
Net identifiable assets		938,032
Residual purchase price allocated to goodwill		86,077
Total	\$	1,024,109

13. SEASONALITY OF BUSINESS

Interim period revenues and earnings historically reflect seasonality. For the Equipment Group, the first quarter is typically the weakest due to winter shutdowns in the construction industry while the fourth quarter has consistently been the strongest quarter due to higher conversions at the Caterpillar dealership of equipment on rent with a purchase option. For CIMCO, the fourth quarter tends to be the strongest due to higher activity in recreational markets in advance of the winter recreational season.